

# **MINUTES OF THE CAPITAL PROJECTS AND BOND OVERSIGHT COMMITTEE**

January 20, 1998

The Capital Projects and Bond Oversight Committee met on Tuesday, January 20, 1998, at 12:30 p.m., in Room 129 of the Capitol Annex. Representative Robert Damron, Chair, called the meeting to order, and the secretary called the roll.

Present were:

Members: Representative Robert Damron, Chairman; Senators Tom Buford, Bob Leeper, and Denny Nunnelley; Representatives Drew Graham, Paul Marcotte, and Jim Wayne.

Guests: Commissioner Armond Russ and Jim Abbott, Department for Facilities Management; Tom Howard, Don Mullis, and Paul Ruby, Office of Financial Management and Economic Analysis; Sherron Jackson, Council on Postsecondary Education; Ken Clevidence, University of Kentucky; Porter Dailey, Morehead State University; Mitchell Payne, University of Louisville; Kevin Mason, Workforce Development Cabinet; Dr. Bob Tarvin, School Facilities Construction Commission; Robert McBeath and Stephanie Robey, Auditor of Public Accounts; Jack Affeldt, Charles Shirley, and Ginny Wilson, LRC.

LRC Staff: Mary Lynn Collins, Pat Ingram, and Shawn Bowen.

Press: Bill Bartleman, Paducah Sun.

Representative Marcotte made a motion to approve the minutes of the December 16, 1997, and the January 9, 1998, meetings as submitted. The motion was seconded by Senator Nunnelley and passed by voice vote.

Chairman Damron reviewed correspondence items in members' folders which included the Kentucky Lottery Corporation's monthly financial status report for November 1997, and status reports on capital projects from the Finance and Administration Cabinet, the University of Kentucky, the University of Louisville, and the Administrative Office of the Courts.

Chairman Damron called on Mr. Ken Clevidence, Director, Capital Project Management Division, University of Kentucky (UK), to discuss an unbudgeted construction project for the UK Soccer/Softball Complex. The construction project, the South Campus Locker Facility, includes installation of four separate locker and shower room athletic facilities for the women's and men's softball teams, the women's soccer team, and visitor teams.

Mr. Clevidence said the University recently received a \$1 million gift to complete construction of the shower and the locker rooms, public restrooms, concessions, and storage for the Soccer/Softball Complex. He said the \$1 million gift has been certified, and is scheduled to be received over a four-year period. Mr. Clevidence said he did not have the identity of the donor, but an announcement would be forthcoming within the week.

Senator Nunnelley made a motion to approve construction of the South Campus Locker Facility. The motion was seconded by Representative Wayne and passed by voice vote.

Next, Mr. Mitchell Payne, Associate Vice-President of Administration, University of Louisville (UL), discussed two unbudgeted projects: the J.B. Speed Art Museum Parking Garage and Planetarium Demolition project and the new Rauch Planetarium project.

Mr. Payne said both of these projects will enhance the University and the services it provides. He said the Parking Garage and Planetarium Demolition project includes the construction of a new 10,000 sq. ft. parking facility on land adjacent to the J.B. Speed Art Museum. The project also calls for demolition of the University's Rauch Memorial Planetarium. The project scope is \$5,365,000, and will be funded by the J.B. Speed Art Museum, a non-profit arts institution. The University may pay up to \$200,000 in a one-time payment from the University's Plant Fund in consideration for an agreement with the museum to permit the University to use the parking structure when the museum is closed.

Next, Mr. Payne discussed the new Rauch Planetarium. He said the new planetarium will be located on UL's campus near Robbins Hall, which is currently scheduled for demolition. He added that services presently being offered by the planetarium will be continued through the University in conjunction with other entities in the community for the ongoing use of students, faculty, and staff. The project scope is \$1,875,000 and funding sources are: \$1,100,000 from the Gheens Foundation; \$500,000 from the City of Louisville and Jefferson County; and \$275,000 from an anonymous donor.

Representative Wayne asked what the Jewish community's reaction was to UL's proposed projects since the current planetarium is dedicated to the memory of Rabbi Joseph Rauch. Mr. Payne responded that from the very beginning, community input was sought, and everyone is satisfied with the final outcome. He said the memorial established to Rabbi Rauch will be part of the new planetarium, and the memorial endowment will continue to fund the new planetarium, along with a grant from the Gheens Foundation.

Representative Wayne asked if there will be an interruption in service to the public between the time the old planetarium is demolished and the new one is constructed. Mr. Payne responded that while there will be a period when the public will not have access to a planetarium facility, services will be taken directly to the intended users, and an office will be set up on UL's campus with dedicated faculty to address issues related to astronomy. He said discussions are also underway with the Louisville Science Center to provide services while the new planetarium is under construction.

Representative Wayne made a motion to approve the J.B. Speed Art Museum Parking Garage and Planetarium Demolition project and the new Rauch Planetarium project for UL. The motion was seconded by Representative Graham and passed by voice vote.

Commissioner Armond Russ, Department for Facilities Management, discussed a Sanitary Sewer Line project at Morehead State University (MoSU). He said this project is part of a Life Safety Bond Pool authorized by the 1994 General Assembly for state universities. Commissioner Russ explained that during the course of the Sanitary Sewer Line project, a number of unforeseen repairs were necessary, and the Finance and Administration Cabinet approved the use of the remaining funds in the project account for those repairs. He said

MoSU is now asking to increase the scope of the Sanitary Sewer Line project by \$7,400 to complete a third phase of the project. The new project scope will be \$445,000, and the source of funds will be funds remaining from another bond-funded life safety project at MoSU.

Senator Nunnelley made a motion to approve the allocation of \$7,400 (1.7% increase) for MoSU to complete the third phase of the Sanitary Sewer Line project. The motion was seconded by Representative Wayne and passed by voice vote.

Mr. Jim Abbott, Director, Division of Real Properties, discussed a lease modification report for the Department of Public Advocacy. He explained the agency is adding 844 sq. ft. of office space to its lease, PR-4107 in Hardin County, to accommodate three additional employees. Mr. Abbott said the same terms and conditions established in the original lease contract will apply.

Mr. Abbott next discussed a new state lease, PR-4150, with an annual cost exceeding \$200,000 for the Cabinet for Families and Children (CFC), Division of Disability Determinations in Jefferson County. He said in light of additional federal funding, CFC's staff has grown from 35 to 65 employees, and the Cabinet requested additional office space to accommodate the increase in staff.

Mr. Abbott said the lease for 21,618 sq. ft. at 410 West Chestnut Street, was awarded to James S. Fox and Steve R. Baser. The lease's annual cost is \$311,007, which includes 80 parking spaces at \$65 per space, per month.

Representative Wayne asked if the lease should be rebid, since all participants, other than the winning bidder, were eliminated before bids were submitted. Mr. Abbott said there were six responses to the newspaper ad, and four of the properties were unsuitable either because of the size of the property or because of the location. He said one of the other properties was suitable, but after the participant received a copy of the floor plans with a list of modifications required, he withdrew from the project because it would not have been economically feasible for him to make the modifications. Mr. Abbott said the lease was executed because the remaining participants dropped out of the bidding process.

Representative Wayne asked if since there was only one bidder in the final stages of procurement, the lease should have been rebid. Mr. Abbott said the state has other contracts with the vendor and he thought the property was leased at a good, competitive market rate. He said this is an all-inclusive lease, and at \$14.38 per sq. ft., it includes janitorial services, parking, and all utilities. In comparison, he said, rental rates in the Legal Arts Building in Louisville for the Revenue Cabinet and for the Department of Corrections are \$15.56 per sq. ft., which does not include utilities or janitorial services.

Chairman Damron noted that the staff analysis on the lease indicated the lease complied with the Governor's policy to lease downtown property when feasible. He asked if downtown properties in Louisville are more expensive to lease because of parking. Mr. Abbott said it varies from market to market, but for metropolitan settings such as Jefferson County, the cost of office space often carries with it higher parking costs. Chairman Damron commented that the Governor's policy decision to lease downtown property in this case had two effects: it limited the number of successful bidders and it pushed up the cost of the lease. Mr. Abbott said the Governor's policy might have such an effect, but quite often agency locations are based on the clients they serve.

Chairman Damron asked if the increase in rental costs will reduce the amount of federal funds that would otherwise be available for the Division of Disability Determinations since the lease is being paid with federal funds. Mr. Abbott responded that he did not know, but he would find out.

Ms. Mary Lynn Collins, Committee Staff Administrator, said it was her understanding the lease was not submitted to the Committee before it was executed as required, because the paperwork was lost in the system. Mr. Abbott responded that an error was made and because of that error, the Cabinet has computerized its leasing contract process, and safeguards are now in place that will not allow a leasing contract to be executed until it has been reported to the Committee.

Chairman Damron said leases in excess of \$200,000 require approval of the Committee; however, since this lease had already been executed, an approval action by the Committee would be to ratify what the Finance and Administration Cabinet has already done. No motion was made regarding the lease.

Chairman Damron said the Audit of Lease Law Compliance During Fiscal Years 1996 and 1997 by the Auditor of Public Accounts was included in members' folders. He said if anyone had questions or would like to hear a presentation regarding audit results, he would arrange to have staff from the Auditor's Office available to make a presentation at a future Committee meeting.

Next, Mr. Don Mullis, Executive Director, Office of Financial Management and Economic Analysis (OFMEA), reported on the emergency reappointment of Bear Stearns as the remarketing agent for the Kentucky Asset/Liability Commission 1998 Project Note Program. Mr. Mullis explained that during the selection process for an underwriter for the Kentucky Asset/Liability Commission, Bear Stearns was chosen to do fixed rate transactions and little attention by either party was given to pricing for a commercial paper transaction. However, when preparations began for the Kentucky Asset/Liability Commission to issue 1998 Project Notes, it was discovered that Bear Stearns had made an error in its bid relating to the commercial paper transaction. He said the contract was bid on a dollar basis, and not on a basis point basis, as is commonly done. Mr. Mullis said that mistake would reduce by ten times the fee Bear Stearns would receive. As an example, he said, the state expects to have \$50 million in notes outstanding by the end of this fiscal year. In five months, at 6 basis points, the compensation Bear Stearns would be entitled would be \$12,500 as opposed to \$1,250 which would be the compensation, based on the bid rate made in error. Mr. Mullis stressed that basis points are the way market prices are quoted, and Bear Stearns clearly made a mistake, which they acknowledged. He said OFMEA would like to reappoint Bear Stearns on an emergency basis at the corrected fee of six basis points for the remainder of the fiscal year, and they plan to rebid all services related to the Kentucky Asset/Liability Commission for the next fiscal year.

Chairman Damron said this item did not require action from the Committee, but needed to be reported as an emergency situation.

Next, Mr. Tom Howard, OFMEA, presented a follow-up report for Kentucky Housing Corporation Housing Revenue Bonds Series D Remarketing (\$22,550,000), Series E Bonds (\$5,340,000), and Series F Bonds (\$8,495,000). He said the purpose of these issues is to finance single-family mortgage loans for families in Kentucky with low to moderate income. Mr.

Howard said Series D Remarketing bonds are alternative minimum tax (AMT) bonds that were originally issued May 22, and were effectively converted to long-term paper. Series E bonds are a recycling of non-AMT bonds; and Series F bonds are a refunding of a portion of Series D bonds for tax purposes and recycling of other AMT repayments. He said the notes were sold on November 18, 1997, and closed on December 18, 1997. The maturity dates for the bond series are: Series D - July 1, 2030; Series E – July 1, 2017; and Series F – July 1, 2028. The true interest cost for each series is: Series D – 5.498%; Series E & F – 5.403%; for comparison purposes, the true interest cost for the Bond Buyer 25 Index during that same period was 5.57%. Mr. Howard said the bonds were rated Aaa by Moody's and AAA by Standard and Poor's. Bond counsel was Kutak Rock; senior managing underwriter was Merrill Lynch; underwriter's counsel was Peck, Shaffer, and Williams; and trustee was PNC Bank.

Chairman Damron said no action was required for this follow-up report because the issue had already been approved by the Committee.

Chairman Damron asked Representative Wayne to take over duties of the Chair for the next two agenda items. Representative Wayne called on Mr. Howard to report on twenty-four new SFCC issues, all of which are refunding issues: Anchorage Ind. (Jefferson Co.) - \$2,610,000 to refund 1991 bonds; Breathitt Co. - \$1,555,000 to refund 1989 bonds; Corbin Ind. (Knox and Whitley Cos.) - \$640,000 to refund a portion of 1991 bonds; Dayton Ind. (Campbell Co.) - \$965,000 to refund 1991 bonds and \$1,240,000 to refund 1990 bonds; Elliott Co. - \$470,000 to refund 1989 bonds; Fulton Co. - \$325,000 to refund 1989 bonds and \$1,400,000 to refund 1987 bonds; Fulton Ind. - \$1,580,000 to refund 1987 and 1991 bonds; Grayson Co. - \$3,675,000 to refund 1987, 1990, 1991, and 1992 bonds; Jackson Co. - \$935,000 to refund 1990 bonds; Jessamine Co. - \$4,260,000 to refund 1991 bonds; Laurel Co. - \$8,170,000 to refund 1991 bonds; Leslie Co. - \$895,000 to refund 1990 bonds; Lewis Co. - \$2,240,000 to refund portions of 1989A, 1990, and 1991 bonds; Madison Co. - \$1,855,000 to refund 1987 bonds; Marion Co. - \$1,690,000 to refund 1990 and 1991 bonds; Martin Co. - \$3,505,000 to refund 1990 bonds; Mason Co. - \$1,310,000 to refund 1991 bonds; Nelson Co. - \$610,000 to refund 1989 bonds; Owen Co. - \$2,320,000 to refund 1986 and 1990 bonds; Powell Co. - \$1,335,000 to refund a portion of 1990 bonds; Scott Co. - \$1,125,000 to refund 1989 bonds; and Warren Co. - \$6,030,000 to refund a portion of 1991 bonds.

Senator Buford made a motion to approve the school bond issues with SFCC participation in debt service. The motion was seconded by Representative Marcotte and passed by voice vote. Chairman Damron abstained from the vote, citing a possible conflict of interest.

Representative Wayne said there were six new local school district bond issues with locally-funded debt service. Local school bond issues were reported for the following school districts: Barren Co. - \$2,205,000 to refund 1991 bonds; Kenton Co. - \$8,675,000 to refund 1991 bonds; Lyon Co. - \$330,000 to refund 1990 bonds; Dayton Ind. (Campbell Co.) - \$145,000 to refund 1989 bonds; Madison Co. - \$725,000 to refund 1989 bonds; and Marion Co. - \$1,000,000 to refund 1991 bonds.

Representative Wayne said no action was required on school bond issues that are 100% locally-funded.

Chairman Damron said the updated monthly/weekly debt issuance calendar was enclosed in members' folders, along with a memorandum to the Committee from the LRC

Economists Office regarding legislative proposals submitted by the Kentucky Higher Education Assistance Authority (KHEAA) and the Kentucky Higher Education Student Loan Corporation (KHESLC). He said this review was a result of the Committee directing the LRC Economists Office to review proposed legislation for KHEAA and KHESLC.

Chairman Damron said the next meeting is tentatively scheduled for February 17, with the time to be announced later.

With there being no further business, Senator Buford made a motion to adjourn the meeting. The motion was seconded by Representative Wayne and passed by voice vote. The meeting adjourned at 1:00 p.m.